

II. Introduction

A. Audit Scope and Approach

As required by D. 03-04-055, on May 2, 2003, the Commission issued a Request for Proposal (RFP) for a comprehensive financial and management audit (Audit) of utility Public Goods Charge (PGC) fund collections and energy efficiency program expenditures from January 1, 1998 to December 31, 2002 of the state's four major investor-owned utilities (IOUs): Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E), Southern California Edison Company (SCE), and Southern California Gas Company (SCG). The objective of the audit is to evaluate utility financial administration and management practices associated with implementation of PGC energy efficiency programs from 1998 through 2002.

As outlined in D. 03-04-055, the purpose of this audit is to:

- Verify PGC collections during the entire period.
- Verify PGC expenditures on energy efficiency-related programs and services.
- Investigate and verify the level of administrative expenditures associated with PGC-funded programs.
- Assess the effectiveness of oversight, accounting and financial funds management.
- Make any recommendations to the Commission, as appropriate, to improve effectiveness of PGC fund management and expenditures by utilities.

blueCONSULTING, INC. audited \$1.1 billion of energy efficiency expenditures in the period 1998 to 2002.

**Exhibit II-1: California Utilities' Energy Efficiency Expenditures Totaled
in the Period 1998 to 2002
(Dollars in Millions)**

Utility	Amount
PG&E	\$466
SCE	326
SDG&E	160
SCG	138
Total	\$1,090

blueCONSULTING began the PGC audit in August 2003, and our field work concluded on March 31, 2004. During the course of the audit, blueCONSULTING experienced significant delays in the receipt of requested data and documents from each of the utilities, and did not receive all of the requested information at SCG and SDG&E. We only received a small portion of the requested labor data at SDG&E, and only received approximately half of all requested audit evidence for

the charges classified as “other” at SCG. In addition, due to the system conversion associated with the merger between SCG and SDG&E, Program Year (PY) 1998 cost information for SCG was not available in a usable form for performing detailed testing of individual transactions.

blueCONSULTING issued approximately 1,200 data requests and conducted over 134 interviews with management and staff at the four utilities. **Exhibit II-2** provides the number of data and interview requests issued at each utility. In addition, a number of follow-up interviews were conducted. A comprehensive list of data and interview requests is provided in **Appendix A**.

Exhibit II-2: blueCONSULTING Issued Almost 1,200 Data Requests and Conducted Over 134 Interviews During the Course of the Audit

Utility	Data Requests	Interview Requests
PG&E	265	44
SCE	545	38
SDG&E	208	34
SCG	177	18
Total	1,195	134

Source: blueCONSULTING data request and interview request logs, included in Appendix A at the end of this chapter.

Note: The number of data requests issued at SCE is significantly larger than the other utilities because SCE had a different numbering system. The utility numbered multiple questions within a single data request as separate questions, including follow-up questions to detailed testing.

B. Regulatory Background

The administration of energy efficiency programs in California has evolved over the last decade. Prior to 1996, the utilities administered energy efficiency programs as part of their demand side management efforts. With the introduction of deregulation and the enactment of AB 1890 and Public Utilities Code §381 and §382, the Commission established a new direction for energy efficiency program administration and implementation: independent administration and market transformation.

Because of the utilities’ inherent conflict of interest between reducing sales through energy efficiency and maintaining market share in the new competitive market, the Commission advocated transferring the administration of energy efficiency programs away from the utilities. The Commission allowed the utilities to continue as interim administrators and created advisory boards to oversee the transition to independent administration: the California Board for Energy Efficiency (CBEE) and the Low-Income Governing Board (LIGB). The Commission also adopted a long-term policy of market transformation, in which it hoped to encourage the development of a vibrant energy efficiency marketplace, which would continue without ratepayer-funded subsidies.

As it was originally intended, the Boards were to facilitate independent administration of the public purpose programs and provide advice to the Commission. Among other things, the Boards were each assigned the task of developing a Request for Proposal articulating policy and programmatic guidelines for new administrators of these programs, subject to Commission approval. The Boards would oversee the administrators and would be subject to Commission regulation. The new administrators were to be selected on a competitive basis. Prior to the new administrators being selected and fully operational, the utilities would serve as interim administrators.

Initially a deadline of October 1, 1998 was set for transition of the energy efficiency programs to an independent administrator, and in July 1998, the Commission directed the Energy Division to issue an RFP for independent administrators of energy efficiency programs. However, as a result of issues that arose during the process, that deadline was subsequently extended to December 31, 1998 and then to December 31, 1999. Workshops were convened to solicit comment on potential administrative structures. In the decision resulting from the workshops (D. 99-03-056), the Commission found that continuing interim utility administration through 2001 was the most viable option for maintaining progress towards its market transformation and low-income assistance goals, and cancelled the RFP. The Commission remained opposed to continuing utility administration of energy efficiency programs beyond 2001, and expressed its preference for the establishment of a legislatively mandated nonprofit organization.

In D. 00-02-045, the Commission abolished the CBEE, but did not retreat from the policy objective of independent administration of ratepayer funded energy efficiency programs. The Commission determined that since the energy efficiency programs incorporated policy changes addressing its market transformation goals and the CBEE's legal structure had become cumbersome, the CBEE should be abolished. The Commission had similar concerns about the LIGB regarding its role, organization and administration. However, the Commission viewed the LIGB as an important liaison to low-income communities and recognized the need to ensure participation and a voice for low-income communities. The Commission decided to retain the LIGB and determined LIGB's primary task was to "advise the Commission on mechanisms to standardize program design and delivery processes across utilities."

The Commission also determined that there was a continuing need for substantial regulatory oversight of the utility administrators to protect ratepayer and consumer interests and that it could achieve its procedural and substantive goals for energy efficiency through formal proceedings and Energy Division oversight.

In September 2000, AB 995 authorized the Commission to continue its oversight of PGC spending on energy efficiency programs. As part of its oversight function, in its Interim Opinion on 2003 Statewide/Utility Local Energy Efficiency Programs and Other Studies (D.03-04-055), the Commission allocated \$3 million for a comprehensive financial audit of utility PGC fund revenue collections and program expenditures from 1998 through 2002.

In 2001, the Commission opened its Energy Efficiency Policy Rulemaking (R.01-08-028) to examine long-term energy efficiency policy, administration, and programs for the state. In addition, D. 01-11-066 Commission concluded that statewide programs will continue to be the backbone of EE policy for 2002 and that they must be uniform, with consistent terms and

requirements in all utility service areas. With regard to non-utility programs, D. 01-11-066 included directions to the major IOUs to execute standard contracts with those non-IOU providers awarded funding. Contract provisions were required to cover several key areas. IOUs were also made responsible for daily contract administration, and were allowed up to five percent of each contract amount as compensation for such administration, subject to reasonableness review and refund if the IOUs' efforts raise concerns. As part of this proceeding and in response to D. 01-11-066, the Commission articulated policies for energy efficiency programs for 2002 and beyond in its Energy Efficiency Program Policy Manual (EEPM). The EEPM provides the current guidelines under which the IOUs (and other third-party implementers) operate PGC energy efficiency programs.

C. Glossary

Exhibit II-3 (page following) provides a glossary of terms and acronyms used throughout this report. In general, acronyms are defined when first used in and used thereafter in their abbreviated form.

Exhibit II-3: Glossary of Terms and Acronyms

Term	Definition
A&G	Administrative and General
A/C	Air Conditioning
AB 1890	Assembly Bill 1890
AEAP	Annual Earnings Assessment Proceeding
AG	Achievement Goal (SCE)
AgTAC	Agricultural technology Application Center
AOR	Area of Responsibility (SCE)
APS	Automated Payment System (Sempra)
ARCA	Appliance Recycling Center of America
ARCATS	ARCA Tracking System
ASR	Annual Savings Report
BCAP	Biennial Cost Allocation Proceeding
BOC	Building Operator Certification
BOE	California State Board of Equalization
BPA	Basic Project Application
C	Contract c
CARE	California Alternate Rates for Energy
CAREA	California Alternate Rates for Energy Account
CBEE	California Board for Energy Efficiency
CCR	Coordinating Commissioner's Ruling
CEA	Conservation Expense Account (SCG)
CEC	California Energy Commission
CEE	Customer Energy Efficiency (PG&E)
CEM	Customer Energy Management (PG&E)
CFA	Conservation Financing Adjustment
CFC	Chlorofluorocarbon
CFCA	Core Fixed Cost Account (PG&E)
CFL	Compact Fluorescent Light
CG	Cost General (SDG&E)
CHEERS	California Home Energy Efficiency Rating System
CIO	Chief Information Officer
CIS	Customer Information System
CO	Change Order
CPUC	California Public Utilities Commission
CRCRS	Consumption Reporting System
CRRIS	Corporate Reporting System
CSBU	Customer Service Business Unit (SCE)
CSFS	Customer Service Financial System (SCE)
CSS	Customer Service System
CTAC	Customer Technology Application Center
CTC	Competition Transition Charge
CTRS	Contract Tracking and Reporting System (PG&E)
DAP	Direct Access Program
DPA	Detailed Project Application

Exhibit II-3: Glossary of Terms and Acronyms

Term	Definition
DSM	Demand-Side Management
EEPAM	Energy Efficiency Program Adjustment Mechanism (SCE)
EEPM	Energy Efficiency Policy Manual
EESP	Energy Efficiency Service Provider
EETS	Energy Efficiency Tracking System (Sempra)
EGIA	Electric and Gas Industries Association
ERP	Enterprise Resource Planning
ESCO	Energy Service Company
FERC	Federal Energy Regulatory Commission
FF&U	Franchise Fees and Uncollectibles
GAAP	Generally Accepted Accounting Principles
GRC	General Rate Case
HVAC	Heating, Ventilation and Air Conditioning
IA	Internal Audit
IMM	Internal Market Mechanism
IO	Internal Order
IOU	Investor-Owned Utility
IT	Information Technology
KPI	Key Performance Indicator (SCE)
kWh	Kilowatt Hour
L	Labor (SCE)
LCIS	Legacy Customer Information System
LCSPC	Large Customer Standard Performance Contract
LED	Light-Emitting Diode
LIEE	Low-Income Energy Efficiency
M	Materials (SCE)
M&E	Measurement & Evaluation
M&V	Measurement & Verification
MAS	SCG General Ledger System
MCD	Major Customer Division (SCE)
MDSS	Marketing Decision Support System
MF	Multifamily
MIP	Management Incentive Program
MP&L	Material Procurement & Logistics (Sempra)
MPC	Marketing Processing Center
MV1	Measurement & Verification Report 1
MV2	Measurement & Verification Report 2
NCA	Non-Core Customer Class Charge Account
O	Other (SCE)
O&M	Operations and Maintenance
OP	Ordering Paragraph
PAMM	Procurement and Materials Management (SCE)
PCC	Provider Cost Center
PG&E	Pacific Gas and Electric Company
PGC	Public Goods Charge

Exhibit II-3: Glossary of Terms and Acronyms

Term	Definition
PIP	Program Implementation Plan
PIR	Project Installation Report
PO	Purchase Order
PPP	Public Purpose Program
PPPC	Public Purpose Program Charge
PPPEEBA	Public Purpose Program Energy Efficiency Balancing Account
PROACT	Procurement Related Obligations Account
PU Code	Public Utilities Code
PY	Program Year
RAP	Revenue Adjustment Proceeding
RCC	Receiver Cost Center
RCP	Residential Contractor Program
RD&D	Research, Demonstration and Development
RGTCOMA	Rate Group Transition Cost Obligation Memorandum Account (PG&E)
RHA	Richard Heath & Associates
RMS	Request for Material or Services
SAP	Systems, Applications, Products in Data Processing of Waldorf, Germany
SAPC	System Average Percent Change
SB 1002	Senate Bill 1002
SBD	Savings by Design
SBX1 5	Senate Bill No. 5 from the First Extraordinary Session
SCE	Southern California Edison Company
SCG	Southern California Gas Company
SCSPC	Small Customer Standard Performance Contract
SDG&E	San Diego Gas & Electric Company
SF	Single Family
SPC	Standard Performance Contract
SRBA	Settlement Rates Balancing Account
TBA	Trial Balance Account
TCBA	Transition Cost Balancing Account
TRA	Transition Revenue Account
WITS	Workforce Information and Timekeeping System (Sempra)